



**REPORT OF THE AUDITOR OF PUBLIC ACCOUNTS
AUDIT EXAMINATION OF THE
FORMER GREENUP COUNTY
SHERIFF'S SETTLEMENT - 1996 TAXES**

September 22, 1997

**EDWARD B. HATCHETT, JR.
AUDITOR OF PUBLIC ACCOUNTS
WWW.KYAUDITOR.NET**

**144 CAPITOL ANNEX
FRANKFORT, KY 40601
TELE. (502) 564-5841
FAX (502) 564-2912**

CONTENTS

PAGE

INDEPENDENT AUDITOR'S REPORT	1
SHERIFF'S SETTLEMENT - 1996 TAXES.....	3
NOTES TO THE FINANCIAL STATEMENTS.....	5
SCHEDULE OF EXCESS OF LIABILITIES OVER ASSETS	7
COMMENTS AND RECOMMENDATIONS.....	13
REPORT ON COMPLIANCE AND ON INTERNAL CONTROL OVER FINANCIAL REPORTING BASED ON AN AUDIT OF THE FINANCIAL STATEMENT PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS.....	19



Edward B. Hatchett, Jr. Auditor of Public Accounts

To the People of Kentucky

Honorable Paul E. Patton, Governor

John P. McCarty, Secretary

Finance and Administration Cabinet

Mike Haydon, Secretary, Revenue Cabinet

Honorable Robert W. Carpenter, Greenup County Judge/Executive

Honorable Keith Cooper, Greenup County Sheriff

Honorable Earl R. Marshall, Former Greenup County Sheriff

Members of the Greenup County Fiscal Court

Independent Auditor's Report

We have audited the former Greenup County Sheriff's Settlement - 1996 Taxes as of September 22, 1997. This tax settlement is the responsibility of the former Greenup County Sheriff. Our responsibility is to express an opinion on the financial statement based on our audit.

We conducted our audit in accordance with generally accepted auditing standards, Government Auditing Standards issued by the Comptroller General of the United States, and the Audit Guide for Sheriff's Tax Settlements issued by the Auditor of Public Accounts, Commonwealth of Kentucky. These standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

The former Sheriff prepared his financial statement on a prescribed basis of accounting that demonstrates compliance with the cash basis and laws of Kentucky, which is a comprehensive basis of accounting other than generally accepted accounting principles.

The former Sheriff signed the Management Representation Letter with a qualification that he did not agree with financial adjustments made by the auditors. Based upon the findings of our audit, the former Sheriff has a deficit of \$17,809 in his official tax account. This deficit results from current and prior year uncollected receivables and unpaid liabilities. The former Sheriff does not agree that he has a deficit in his official tax account.

To the People of Kentucky

Honorable Paul E. Patton, Governor

John P. McCarty, Secretary

Finance and Administration Cabinet

Mike Haydon, Secretary, Revenue Cabinet

Honorable Robert W. Carpenter, Greenup County Judge/Executive

Honorable Keith Cooper, Greenup County Sheriff

Honorable Earl R. Marshall, Former Greenup County Sheriff

Members of the Greenup County Fiscal Court

In our opinion, except that the former Sheriff did not agree with financial adjustments made by the auditors, the accompanying financial statement referred to above presents fairly, in all material respects, the former Greenup County Sheriff's taxes charged, credited, and paid as of September 22, 1997, in conformity with the basis of accounting described in the preceding paragraph.

Our audit was made for the purpose of forming an opinion on the financial statement taken as a whole. The schedule listed in the table of contents is presented for purposes of additional analysis and is not a required part of the financial statement. Such information has been subjected to auditing procedures applied in the audit of the financial statement and, in our opinion, is fairly presented in all material respects in relation to the financial statement taken as a whole.

Based on the results of our audit, we have presented comments and recommendations, included herein, which discuss the following areas of noncompliance:

- Former Sheriff Earl R. Marshall Should Eliminate The \$17,809 Deficit In His Tax Account
- Former Sheriff Earl R. Marshall Should Not Have Made Numerous Transfers Between The Tax Account And Fee Account
- Former Sheriff Earl R. Marshall Should Have Had A Written Agreement To Protect Deposits
- Former Sheriff Earl R. Marshall Should Pay Board Of Education Proper Share Of Interest Earned On Investment Of School Taxes
- Former Sheriff Earl R. Marshall's County Revenue Bond Should Have Adequately Protected The County From Potential Loss

In accordance with Government Auditing Standards, we have also issued a report dated November 12, 1999, on our consideration of the former Sheriff's compliance with certain laws and regulations and internal control over financial reporting.

Respectfully submitted,



Edward B. Hatchett, Jr.
Auditor of Public Accounts

Audit fieldwork completed -
November 12, 1999

GREENUP COUNTY
EARL R. MARSHALL, FORMER SHERIFF
SHERIFF'S SETTLEMENT - 1996 TAXES

September 22, 1997

<u>Charges</u>	<u>County Taxes</u>	<u>Special Taxing Districts</u>	<u>School Taxes</u>	<u>State Taxes</u>
Real Estate	\$ 660,146	\$ 1,393,065	\$ 4,041,124	\$ 1,222,932
Tangible Personal Property	96,630	181,766	542,360	390,464
Intangible Personal Property				1,082,335
Fire Protection	1,900			
Franchise Corporation	126,974	196,908	758,576	
Additional Billings	9,324	27,477	52,380	17,794
Increased Through Erroneous Assessments	847	13,440	8,169	13,351
Penalties	6,571	14,112	40,497	13,750
Adjusted to Sheriff's Receipt		45	14	13
Gross Chargeable to Sheriff	<u>\$ 902,392</u>	<u>\$ 1,826,813</u>	<u>\$ 5,443,120</u>	<u>\$ 2,740,639</u>
<u>Credits</u>				
Discounts	\$ 10,211	\$ 21,380	\$ 61,699	\$ 41,637
Exonerations	26,016	52,819	154,936	146,389
Delinquents:				
Real Estate	44,406	92,862	273,840	82,015
Tangible Personal Property	488	829	2,790	2,004
Intangible Personal Property				1,678
Uncollected Franchise	<u>4,069</u>	<u>6,179</u>	<u>24,210</u>	
Total Credits	<u>\$ 85,190</u>	<u>\$ 174,069</u>	<u>\$ 517,475</u>	<u>\$ 273,723</u>
Net Tax Yield	\$ 817,202	\$ 1,652,744	\$ 4,925,645	\$ 2,466,916
Less: Commissions (a)	<u>35,019</u>	<u>70,242</u>	<u>112,745</u>	<u>105,131</u>
Net Taxes Due	\$ 782,183	\$ 1,582,502	\$ 4,812,900	\$ 2,361,785
Taxes Paid	780,376	1,573,915	4,810,943	2,337,570
Credit For Commissions Per KRS 134.290				19,874
Refunds (Current and Prior Year)	<u>2,291</u>	<u>3,665</u>	<u>1,363</u>	<u>4,341</u>
Due Districts or (Refunds Due Sheriff) as of Completion of Fieldwork	<u><u>\$ (484)</u></u>	<u><u>\$ 4,922</u></u>	<u><u>\$ 594</u></u>	<u><u>\$ 0</u></u>

(a), (b), and (c) See Page 4

GREENUP COUNTY
 EARL R. MARSHALL, FORMER SHERIFF
 SHERIFF'S SETTLEMENT - 1996 TAXES
 September 22, 1997
 (Continued)

(a) Commissions:

10% on	\$	10,000
4.25% on	\$	4,926,862
2.5% on	\$	2,846,383
2% on	\$	2,079,262

(b) Special Taxing Districts:

Library District	\$	(41)
Health District		5,293
Extension District		(113)
South Shore Fire District		(532)
Wurtland Fire District		401
Lloyd Fire District		839
Maloneton Fire District		1,349
Oldtown Fire District		(1,664)
Firebrick Fire District		(158)
Little Sandy Fire District		(397)
Load Fire District		(190)
Ambulance District		251
City of South Shore		(826)
City of Greenup		710

Due Districts or (Refunds Due Sheriff)	\$	<u>4,922</u>
--	----	--------------

(c) School Taxing Districts:

Common School	\$	(959)
Russell School		779
Raceland School		774

Due Districts or (Refunds Due Sheriff)	\$	<u>594</u>
--	----	------------

The accompanying notes are an integral part of the financial statements.

GREENUP COUNTY
NOTES TO THE FINANCIAL STATEMENT

September 22, 1997

Note 1. Summary of Significant Accounting Policies

A. Fund Accounting

The Sheriff's office tax collection duties are limited to acting as an agent for assessed property owners and taxing districts. A fund is used to account for the collection and distribution of taxes. A fund is a separate accounting entity with a self-balancing set of accounts. Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain government functions or activities.

B. Basis of Accounting

The financial statement has been prepared on a cash basis of accounting. Basis of accounting refers to when charges, credits, and taxes paid are reported in the settlement statement. It relates to the timing of measurements regardless of the measurement focus.

Charges are sources of revenue which are recognized in the tax period in which they become available and measurable. Credits are reductions of revenue which are recognized when there is proper authorization. Taxes paid are uses of revenue which are recognized when distributions are made to the taxing districts and others.

C. Cash and Investments

At the direction of the fiscal court, KRS 66.480 authorizes the Sheriff's office to invest in the following, including but not limited to, obligations of the United States and of its agencies and instrumentalities, obligations and contracts for future delivery or purchase of obligations backed by the full faith and credit of the United States, obligations of any corporation of the United States government, bonds or certificates of indebtedness of this state, and certificates of deposit issued by or other interest-bearing accounts of any bank or savings and loan institution which are insured by the Federal Deposit Insurance Corporation (FDIC) or which are collateralized, to the extent uninsured, by any obligation permitted by KRS 41.240(4).

Note 2. Deposits

The former Sheriff maintained deposits with depository institutions insured by the Federal Deposit Insurance Corporation (FDIC). According to law, the depository institution should pledge or provide sufficient collateral which, together with FDIC insurance, equals or exceeds the amount on deposit at all times. In order to be valid against the FDIC in the event of failure or insolvency of the depository institution, this pledge or provision of collateral should be evidenced by an agreement that is (a) in writing, (b) approved by the board of directors of the depository institution or its loan committee, which approval must be reflected in the minutes of the board or committee, and (c) an official record of the depository institution. The depository institution has pledged or provided sufficient collateral, and the depository institution's board of directors or loan committee approved the pledge or provision. However, the depository institution did not have a written agreement with the former Sheriff.

GREENUP COUNTY
EARL R. MARSHALL, FORMER SHERIFF
NOTES TO THE FINANCIAL STATEMENT
September 22, 1997
(Continued)

Note 3. Property Taxes

The real and personal property tax assessments were levied as of January 1, 1996. Property taxes were billed to finance governmental services for the year ended June 30, 1997. Liens are effective when the tax bills become delinquent. The collection period for these assessments was October 30, 1996 through September 22, 1997.

Note 4. Interest Income

The former Greenup County Sheriff earned \$6,016 as interest income on 1996 taxes. The former Sheriff did not distribute any of the interest income to the school districts or the fee account as required by statute.

GREENUP COUNTY
EARL R. MARSHALL, FORMER SHERIFF
SCHEDULE OF EXCESS OF LIABILITIES OVER ASSETS

September 22, 1997

Assets

Cash in Bank (All Tax Accounts)		\$	2,624
Deposits In-Transit			3,005
Receivables:			
1994 Tax Overpayment Receivable-			
State	\$	2,724	
Little Sandy Fire		309	
Wurtland Fire		664	3,697
1995 Tax Overpayment Receivables-			
State	\$	1,714	
Common School		19	
Russell School		6	
Raceland School		13	
Library		9	
Health		2	
Lloyd Fire		2	
Load Fire		16	
Ambulance		288	2,069
1996 Tax Overpayment Receivable-			
County	\$	484	
Common School		959	
Library		41	
Extension		113	
South Shore Fire		532	
Oldtown Fire		1,664	
Firebrick Fire		158	
Little Sandy Fire		397	
Load Fire		190	
City of South Shore		826	5,364
Due From Fee Account-			
1994 Tax Overpayment Refunds	\$	7,626	
1995 Tax Overpayment Refunds		8,876	
1995 Commission Overpayment		357	
1996 Tax Overpayment Refunds		8,345	
November 1996 Russell School Commission		28,750	53,954
Total Assets		\$	70,713

GREENUP COUNTY
 EARL R. MARSHALL, FORMER SHERIFF
 SCHEDULE OF EXCESS OF LIABILITIES OVER ASSETS
 September 22, 1997
 (Continued)

Liabilities

Liabilities:

Paid Liabilities-

Taxing Districts-

State	\$	15,649	
County		543	
Russell School		3,481	
Raceland School		1,504	
Library		326	
Extension		90	
		<hr/>	
	\$		21,593

Unpaid Obligations-

1995 Taxes Due Districts-

County	\$	133	
Extension		8	
		<hr/>	
			141

1996 Taxes Due Districts-

Russell School	\$	779	
Raceland School		774	
Health		5,293	
Wurtland Fire		401	
Lloyd Fire		839	
Maloneton Fire		1,350	
Ambulance		251	
City of Greenup		710	
		<hr/>	
			10,397

1995 Investment Interest-

Common School	\$	63	
Russell School		60	
Raceland School		23	
		<hr/>	
			146

1996 Checking Account Interest-

Common School	\$	1,257	
Russell School		1,247	
Raceland School		448	
		<hr/>	
			2,952

GREENUP COUNTY
 EARL R. MARSHALL, FORMER SHERIFF
 SCHEDULE OF EXCESS OF LIABILITIES OVER ASSETS
 September 22, 1997
 (Continued)

Liabilities (Continued)

Amounts Due To Fee Account-			
1993 Unmined Coal Commission	\$	259	
1995 Checking Account Interest		1,983	
1995 Investment Interest		6	
1995 Sheriff's Fees		176	
1995 Line of Credit Repaid By Fee Account		18,000	
1996 Checking Account Interest		3,063	
Transfer Due Fee Account		<u>12,977</u>	\$ 36,464
1995 Advertising Fees Due Fiscal Court			440
Taxes Collected But Not Yet Paid-			
Franchise Taxes			<u>16,389</u>
Total Liabilities			<u>\$ 88,522</u>
Cumulative Deficit As of September 22, 1997			<u><u>\$ (17,809)</u></u>

THIS PAGE LEFT BLANK INTENTIONALLY

COMMENTS AND RECOMMENDATIONS

GREENUP COUNTY
EARL R. MARSHALL, FORMER SHERIFF
COMMENTS AND RECOMMENDATIONS

September 22, 1997

STATE LAWS AND REGULATIONS:

1) Former Sheriff Earl R. Marshall Should Eliminate The \$17,809 Deficit In His Tax Account

Former Sheriff Marshall has a cumulative deficit of \$17,809 in his official tax account as of September 22, 1997. The 1995 tax account had a surplus of \$13,593 and the 1996 tax account has a deficit of \$31,402. The 1996 tax account deficit results largely from \$12,977 net cash transfers from the fee account to the tax account, which were not repaid at year end, and bank share credit of \$19,874, which the state used to reduce the amount of taxes due. We recommend the former Sheriff deposit personal funds in the amount of \$17,809 to eliminate this deficit.

Management's Response:

The tax settlement process is a complicated process based upon single entry bookkeeping and has no backup control procedure. There is lots of room for error. We believe that an error has occurred to result in this deficit. We want to compare the Auditor of Public Accounts draft financial statement to settlements prepared by the former Sheriff to determine where errors may have occurred.

2) Former Sheriff R. Earl Marshall Should Not Have Made Numerous Transfers Between The Tax Account And Fee Account

Former Sheriff Marshall made numerous transfers between the tax account and fee account during the 1996 tax year. This practice mixes tax and fee account monies that should be kept separate at all times. Tax commissions may be transferred to the fee account, but tax collections may not be used to fund fee account operations. Further, the former Sheriff did not book transfers as liabilities or receivables, creating a misstatement of the cash balance for each account. As of September 22, 1997, the tax account owes the fee account \$12,977 for transfers not repaid. We recommend the former Sheriff repay the balance of \$12,977 from the tax account to the fee account. We further recommend the Sheriff's office refrain from transferring funds between the tax and fee accounts (other than normal tax commission transfers).

Management's Response:

Should look at transfers at a net effect for the year. These transfers would not result in a personal deficit. They would result in an adjustment in the amounts due to/from the fee account.

GREENUP COUNTY
EARL R. MARSHALL, FORMER SHERIFF
COMMENTS AND RECOMMENDATIONS
September 22, 1997
(Continued)

3) Former Sheriff Earl R. Marshall Should Have Had A Written Agreement To Protect Deposits

The former Sheriff maintained deposits with depository institutions insured by the Federal Deposit Insurance Corporation (FDIC). The Sheriff had a bank balance of \$6,557,058; FDIC insurance of \$300,000; and securities pledged of \$6,257,058 as of December 18, 1997. Even though the former Sheriff obtained pledged securities of \$6,257,058, the pledge was not evidenced by a written agreement. We recommend the Sheriff's office enter into a written agreement with the depository institution. This agreement, signed by both parties, must be sufficient to create an enforceable and perfected security interest in the collateral under Kentucky law. According to federal law, 12 U.S.C.A. § 1823(e), this agreement should be (a) in writing, (b) approved by the board of directors of the depository institution or its loan committee, which approval must be reflected in the minutes of the board or committee, and (c) an official record of the depository institution.

Management's Response:

No one ever mentioned this before.

Auditor's Response:

This item appeared in the former Sheriff's 1995 Tax Settlement Audit.

4) Former Sheriff Earl R. Marshall Should Pay Board Of Education Proper Share Of Interest Earned On Investment Of School Taxes

Pursuant to KRS 134.140(b), the Sheriff shall pay to the Board Of Education the proper share of interest earned on investment of school taxes. The proper share shall be determined by comparing the school tax to the total taxes collected and using that percentage as a factor. Total interest earned on 1996 taxes was \$6,016. The Common Schools' share is \$1,257, the Russell Independent Schools' share is \$1,247, and the Raceland Independent Schools' share is \$448. The former Sheriff's fee account is due a total of \$3,064 for interest. The former Sheriff has not paid anything to the schools or the fee account, leaving the aforementioned amounts due at the date of this audit. We recommend interest payments be made promptly.

Management's Response:

The matter of paying interest to the School Boards is being heard by the Court of Appeals. We have paid investment interest to the school. The interest noted above relates to NOW account interest only.

GREENUP COUNTY
EARL R. MARSHALL, FORMER SHERIFF
COMMENTS AND RECOMMENDATIONS
September 22, 1997
(Continued)

5) Former Sheriff Earl R. Marshall's County Revenue Bond Should Have Adequately Protected
The County From Potential Loss

KRS 134.230 allows the fiscal court to require Sheriff's office to obtain a county revenue bond. The amount of the former Sheriff's county revenue bond was \$250,000. In our opinion, this amount was insufficient to adequately protect the county from potential loss. We recommend the fiscal court review the county revenue bond of the Sheriff's office and take appropriate action necessary to ensure that the county is adequately protected.

Management's Response:

We have used the amount of revenue bond traditionally carried.

PRIOR YEAR:

In our prior year audit, we reported the following items that were not corrected and are reported on in our current year audit.

- Former Sheriff Earl Marshall Should Not Have Made Numerous Transfers Between The Tax Account And Fee Account
- Former Sheriff Earl Marshall Should Have Had A Written Agreement To Protect Deposits
- Former Sheriff Earl Marshall's County Revenue Bonds Should Have Adequately Protected The County From Potential Loss

THIS PAGE LEFT BLANK INTENTIONALLY

REPORT ON COMPLIANCE
AND ON INTERNAL CONTROL OVER FINANCIAL
REPORTING BASED ON AN AUDIT OF THE FINANCIAL STATEMENT
PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS



Edward B. Hatchett, Jr.
Auditor of Public Accounts

Honorable Robert W. Carpenter, Greenup County Judge/Executive
Honorable Keith Cooper, Greenup County Sheriff
Honorable Earl R. Marshall, Former Greenup County Sheriff
Members of the Greenup County Fiscal Court

Report On Compliance And On Internal Control
Over Financial Reporting Based On An Audit Of The Financial
Statement Performed In Accordance With Government Auditing Standards

We have audited the former Greenup County Sheriff's Settlement - 1996 Taxes as of September 22, 1997, and have issued our report thereon dated November 12, 1999. We conducted our audit in accordance with generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether the financial statement is free of material misstatement, we performed tests of its compliance with certain provisions of laws and regulations, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed an instance of noncompliance that is required to be reported under Government Auditing Standards which is described in the accompanying Comments and Recommendations.

- Former Sheriff Earl R. Marshall Should Eliminate The \$17,809 Deficit In His Tax Account

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the former Greenup County Sheriff's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statement and not to provide assurance on the internal control over financial reporting. However, we noted a certain matter involving the internal control over financial reporting and its operation that we consider to be a reportable condition. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the entity's ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statement. Reportable conditions are described in the accompanying Comments and Recommendations.

- Former Sheriff Earl R. Marshall Should Not Have Made Numerous Transfers Between The Tax Account And Fee Account

Honorable Robert W. Carpenter, Greenup County Judge/Executive
Honorable Keith Cooper, Greenup County Sheriff
Honorable Earl R. Marshall, Former Greenup County Sheriff
Members of the Greenup County Fiscal Court
Report On Compliance And On Internal Control
Over Financial Reporting Based On An Audit Of The Financial
Statement Performed In Accordance With Government Auditing Standards
(Continued)

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statement being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we consider the reportable condition described above to be a material weakness.

- Former Sheriff Earl R. Marshall Should Not Have Made Numerous Transfers Between The Tax Account And Fee Account

This report is intended for the information of management. However, this report, upon release by the Auditor of Public Accounts, is a matter of public record and its distribution is not limited.

Respectfully submitted,



Edward B. Hatchett, Jr.
Auditor of Public Accounts

Audit fieldwork completed -
November 12, 1999

